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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 000495

SIPDIS

STATE FOR EB/ESC/TFS FOR GGLASS AND NROTHSTEIN
STATE FOR S/CT SFOX; IO/PHO FOR APEREZ
NSC FOR GPETERS; TREASURY GENERAL COUNSEL DAUFHAUSER;
TREASURY FOR OFAC DIRECTOR RNEWCOMB; TREASURY FOR JZARATE
TREASURY TASK FORCE ON TERRORIST FINANCING
PARIS FOR PETER KUJAWINSKI AND UZRA ZEYA
TUNIS FOR NATALIE BROWN

E.O. 12958: DECL: 02/04/2014

TAGS: [EFIN](#) [ECON](#) [ETTC](#) [PTER](#) [PREL](#) [KU](#)

SUBJECT: (C) KUWAIT FINANCE HOUSE OPENS UP TO OFAC

Classified By: CDA Frank C. Urbancic for reasons 1.4 (b) and (d)

11. (C) Summary: On January 19 OFAC Director Richard Newcomb met with Kuwait Finance House (KFH) General Manager Jassar Al-Jassar and officials from the KFH Anti-Money Laundering and Terrorist Finance Unit (AML). KFH officials described in detail to OFAC representatives their efforts to combat terrorist financing and money laundering. KFH told Newcomb that Lajnat al-Dawa al-Islamiya (LDI) closed its accounts with KFH after the bank had frozen LDI assets. KFH provided inconsistent answers as to when exactly it froze LDI accounts. KFH subsequently required all charities to consolidate their accounts under their parent organizations. KFH continues to hold accounts for LDI's parent organization, the Social Reform Society (SRS). End Summary.

12. (C) OFAC Director Richard Newcomb met with KFH General Manager Jassar Al-Jassar, Director) Business Consultancy K. Salman Younis and Manager) AML & Terrorist Finance Unit Medhat A. Al-Kharashi January 19 meeting KFH headquarters. The KFH officials reviewed in detail what they described as their organization's extensive measures to ensure the bank did not facilitate terrorist financing or money laundering operations.

13. (C) K. Salman Younis said KFH had moved quickly to freeze LDI assets after the US designated the organization a supporter of terrorism. Salman said KFH's quick response to the US announcement was part of an overall plan the bank had introduced to strengthen its anti-terrorist policies after a post 9/11 Central Bank of Kuwait (CBK) request to do so. (Note: KFH later stated that the freeze took effect February 6, four weeks after the US designation but before the UN designation was made. End note.) Salman said the Board of Directors and senior management had empowered the AML and Terrorist Finance Unit to take all necessary measures to ensure the bank does not facilitate terrorist financing. He said the Chairman has challenged the Unit to make the bank the "best in the world" with respect to anti-terror policies.

14. (C) Accordingly, Salman said, the bank has developed the following policies:

--The bank writes and implements an annual AML and anti-terrorism plan.

--The bank is using OFAC Tracker software to monitor all transactions, and is currently evaluating additional software packages; a decision on the additional software will be made by March 31st.

--An AML officer has been designated in each of the bank's units; the officer is responsible for reviewing all transactions for AML compliance.

--AML and anti-terrorist finance training is mandatory for all new KFH employees; employees are encouraged to bring suspicious account activity to the attention of managers.

--KFH is bringing in anti-money laundering/anti-terrorist finance speakers in on a quarterly basis; Citibank, Barings and HSBC staff members are among the current invitees.

--AML Unit staff review each unit's transaction reports on a weekly basis.

Salman said KFH plans to distribute a monthly AML newsletter providing tips on suspicious activity. Additionally, he said that a top ten 'warning signs' for money laundering bulletin was to be distributed on the KFH intranet that week.

KFH DISCUSSES LDI ACCOUNT

15. (C) When asked about the status of LDI accounts, KFH officials gave conflicting answers on when KFH froze LDI assets. Younis first stated that it froze LDI accounts in December 2002, prior to USG designation of LDI on January 9, 2003. Later, he stated that KFH became aware of the USG

designation of LDI on January 28, 2003, and by February 6 had taken the necessary steps to freeze LDI assets. (Note: From the discussion, it was unclear at what point exactly KFH became aware of USG action and when KFH chose to implement freezing of LDI accounts. End Note.)

16. (C) Also during the discussion, Younis asserted that LDI was not a legal or separate entity, but a committee within SRS) the two were one and the same. As such, KFH officials asked why the USG had only designated LDI and not SRS.

17. (U) In addition to freezing LDI accounts, KFH has taken further steps to control suspicious activity by requiring charities to consolidate their accounts under the name of the parent organization, rather than allowing committees under the parent to hold separate accounts. Al-Jassar said KFH has since prohibited the opening of accounts for subsidiary charity organizations. When asked which charities KFH currently provides services to, Al-Jassar said the bank only does business with the five Kuwaiti charities officially endorsed by the Ministry of Social Affairs and Labor. They are: Social Reform Society, Revival of Islamic Heritage Society, Al-Najat Society, Al-Awn Al-Mubasher Society and Sheik Abdulla Al-Nouri Society. In addition, Al-Jassar added that KFH will not open accounts for shell banks or high risk individuals.

18. (C) KFH Background: KFH is currently the only licensed Islamic Bank in Kuwait. The company has 27 branch offices and owns banks in both Bahrain and Turkey (Kuwait Turkish Financial Bank). The KFH advisory board contains several former SRS officials. This relationship with SRS makes its oversight of SRS and its subsidiary LDI a possible conflict of interest. Two additional Islamic banks) one converting from a commercial bank and the other starting anew) are slated to begin operation within the next few months.

19. (U) This message was cleared in MemCon format by OFAC Director Richard Newcomb.
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